

Private foundation taxable expenditures; science award. An award by a private foundation to a high school senior whose exhibit receives top honors in a local science fair and is conditioned on the student's agreeing to use the award for educational activities may be a taxable expenditure under sections 4945(d)(3) and 4945(g) of the Code; Rev. Rul. 75-393 distinguished.

Advice has been requested whether, under the circumstances described below, grants to individuals by a private foundation are subject to the provisions of section 4945(d)(3) of the Internal Revenue Code of 1954.

Each year the foundation awards a cash prize to the high school senior who wins top honors in a local science fair. Each high school in the local community participates in the competition by entering the exhibits of its students and by permitting its science faculty to assist in judging the exhibits.

Prior to awarding the cash prize to the students whose exhibit receives top honors, the foundation requires the student to agree to use the award for his or her education, usually to pursue a college degree.

Section 4945 of the Code imposes a tax on each taxable expenditure made by a private foundation.

Section 4945(d)(3) of the Code provides that the term 'taxable expenditure' includes any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or other similar purpose by such individual, unless such grant satisfies the requirements of section 4945(g).

Section 53.4945-4(a)(3)(i) of the Foundation Excise Tax Regulations provides that a grant to an individual for purposes other than those described in section 4945(d)(3) of the Code is not a taxable expenditure within the meaning of that section, even if the requirements of section 4945(g) are not met. However, as Rev. Rul. 76-460, page 14, indicates, a grant to an individual for purposes other than those described in section 4945(d)(3) may constitute a taxable expenditure under section 4945(d)(5).

Rev. Rul. 75-393, 1975-2 C.B. 451, holds that an award by a private foundation to the person who has written the best work of literary criticism during the preceding year is not a taxable expenditure within the meaning of section 4945(d)(3) of the Code.

These awards are not intended to finance any future activities of an individual grantee, and no conditions are imposed on the manner in which the awards may be expended by the recipients.

In the instant case, the award made to the individual who wins the local science fair is granted in recognition of a past achievement, as is the case in Rev. Rul. 75-393. However, unlike the situation described in that Revenue Ruling, the award here is intended to finance future educational activities of the grantee and conditions are imposed on the manner in which the award may be expended by the recipient.

Accordingly, the awards in the instant case are subject to the provisions of section 4945(d)(3) of the Code and will constitute taxable expenditures unless the foundation's grant-making procedures satisfy the requirements of section 4945(g).

Rev. Rul. 75-393 is distinguished.